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Discussion Paper

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FINANCIAL INCLUSION IN ASIA AND THE PACIFIC

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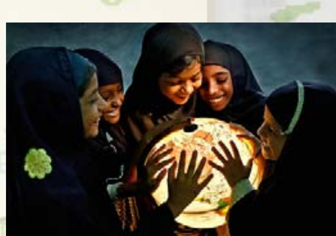

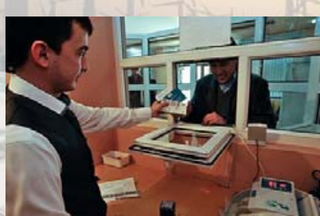

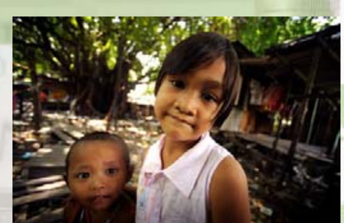

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FINANCIAL INCLUSION IN ASIA AND THE PACIFIC

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Macroeconomic Policy and Financing for Development Division

Financial Inclusion in Asia and the Pacific

by

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Abstract

Financial inclusion strategy has emerged as an effective tool for achieving the Sustainable Development Goals (SDGs). In recognizing the need to mainstream financial inclusion strategies in the Asia and the Pacific, this paper provides a regional overview of the current trends and patterns of financial inclusion in the Asia-Pacific region, with a special focus on LDCs, LLDCs, SIDs. It emphasizes that consumer protection, financial literacy and governance frameworks are crucial factors for advancing financial inclusion in the region by 2030. The paper also highlights selected issues related to providing financial services for all, including promoting lending to micro, small and medium-sized enterprises, increasing and diversifying lending and financial tools for increased access, and promoting financial literacy. In focusing on the development of enabling environment at the country level, the paper concludes by highlighting a set of policy recommendations to increase overall access to financial inclusion in the Asia-Pacific region.

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I. Introduction

Financial inclusion and inclusive growth have emerged as buzz-words in policy making among policy makers, development planners, academia, and development partners. National governments and development partners formulate their development policy to spur sustainable inclusive economic growth to meet sustainable development goals (SDGs) set by the UNDP for next 15 years. Already, about 60 governments across the world have adopted financial inclusion strategy and the post-2015 Development Agenda squarely puts financial inclusion as a key United Nations member countries (Sahay and others, 2015).

An increasing number of national governments are introducing comprehensive measures to improve access to and use of financial services. Among bank regulators in 143 jurisdictions, a recent survey found, 67 per cent have a mandate to promote financial inclusion. International organizations, including the G-20 and the World Bank, are also beginning to formulate strategies to promote financial inclusion. In recent years more than 50 countries have set formal targets and ambitious goals for financial inclusion (Demirguc-Kunt and others, 2015).

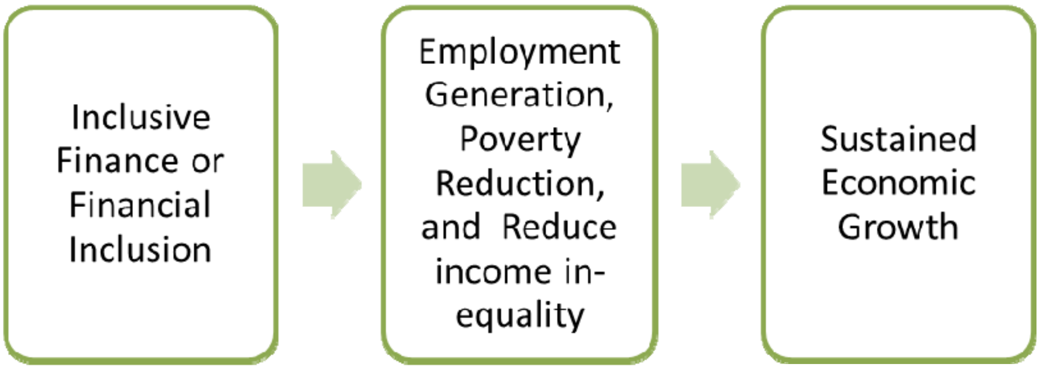
Economic literature on finance shows that there is a strong link between inclusive finance or financial inclusion and inclusive growth. Indeed, a growing recognition is that financial inclusion is critically important for development and poverty reduction (WB, 2014, King et. al, 1993; Beck et. al, 2000, 2004; Levine, 2005 and Demirgüc-Kuntet. al, 2008). Naceur and Zhang (2016) find a negative relation between financial access and income inequality for 143 countries. Sahay and others(2015) argues that access to finance can facilitate the poorest of the population to improve their economic situation, particularly in developing countries. In the developing countries, many adults including farmers, women young, MSME entrepreneurs and rural habitants are excluded from formal financial services or under-served and limited access to finance.

Inclusive growth is the process where poverty and income inequality will diminish and the benefits of growth will spill over into marginal segment of the society (chart 1). World Economic Forum[1] defines inclusive growth as "... output growth that is sustained over decades, is broad-based across economic sectors, creates productive employment opportunities for a great majority of the country’s working age population, and reduces poverty". Inclusive growth also depends on the pace and pattern of economic growth. Different institutions define inclusive growth based on their own objectives and strategies. For Example OECD (2015a) defines " Inclusive growth is where the gap between the rich and the poor is less pronounced and the growth dividend is shared in a fairer way that results in improvements in living standards and outcomes that matter for people’s quality of life [e.g. good health, jobs and skills, clean environment, community support]).”The World Bank defines "inclusive growth by its pace and pattern – growth that is sufficient to lift large numbers out of poverty and growth that includes the largest part of the country's labour force in the economy". The International Policy Centre for Inclusive Growth (IPC-IG) places “its emphasis on participation – so that in addition to sharing in the benefits of growth, people actively participate in the wealth process and have a say in the orientation of that process". The ADB state that "tackling discrimination of the most marginalized groups is an intrinsic part of the inclusive

[1] See The Inclusive Growth and Development Report 2015, World Economic Forum.

growth process, as well as a key outcome. Groups that have suffered discrimination are those that have been left behind in poverty reduction and economic development efforts – helping these groups to participate in and benefit from economic activities is a cornerstone of inclusive growth".

Figure 1. Financial inclusion and inclusive growth process



Another important dimension is that inclusive growth requires sustainable growth which is not covered by the mentioned definition. Overall, sustainable growth is intimately linked to the concept of sustainable development. To mitigate the impacts of climate change and other forms of environmental degradation the policies should be included in growth process which ensure sustainable development i.e., economic growth now needs to be both socially inclusive and environmentally sustainable to achieve long-term human development benefits (CAFOD, 2014).

Financial inclusion strategy has emerged as an effective tool for achieving the Sustainable Development Goals (SDGs). The General Assembly adopted the 2030 Agenda for Sustainable Development, including the SDGs. With 17 goals and 169 targets, the SDGs aim to bring together all stakeholders to address the three pillars of sustainable development--economic prosperity, social equity and environmental responsibility. These 17 goals to be realized by next 15 years and the year of 2016 is the beginning year. Greater financial inclusion helps to achieve some SDGs. For example, the goals: (1) end poverty in all its forms everywhere, (2) end hunger, achieve food security and improved nutrition and promote sustainable agriculture, (3) ensure healthy lives and promote well-being for all at all ages), (4) ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, (5) achieve gender equality and empower all women and girls (6) promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, (7) reduce inequality within and among countries , and (8) take urgent action to combat climate change and its impacts are linked with financial inclusion . Studies show that when people participate in the financial system, they are better able to start and expand businesses, invest in education, manage risk, and absorb financial shocks. Access to accounts and to savings and payment mechanisms increases savings, empowers women, and boosts productive investment and consumption. Access to credit also has positive effects on consumption—as well as on employment status and income and on some aspects of mental health and outlook. The benefits go beyond individuals. Greater access to financial services for both individuals and firms may help reduce income inequality and accelerate economic growth (Demirguc-Kunt and others, 2015).

Over the next 15 years, monitoring of poverty will be critical in delivering an ambitious international development agenda that aspires to a world without monetary poverty, and one where poverty in all its dimensions has been at least halved. The Asia-Pacific region will be fundamental in achieving these targets, with more than 600 people living in extreme poverty--more than half of the world's poor. In Asia and the Pacific, while many countries have made enormous progress in reducing the number and percentage of people living in extreme poverty, millions of people are still unable to meet their basic needs (ESCAP, 2015).

To scale up the financial inclusion and to define action agenda for next 15 years in the Asia-Pacific region are warranted to meet the goals. In this backdrop, the main objectives of the paper are given below:

- The paper reviews the current trends and patterns of financial inclusion in the Asia-Pacific region, in with a special reference to LDC, LLDC, and SIDS.
- The paper highlights selected issues related to providing financial services for all, promoting lending to micro, small and medium-sized enterprises , increasing and diversifying lending and financial tools for increased access, and promoting financial literacy.
- The paper focuses the issues which encourage further development of enabling environment at the country level, especially in the context of the 2030 Agenda for Sustainable Development.
- The paper also highlights a set of policy recommendations, with country example, to increase the overall access to financial inclusion in the Asia-Pacific region.

II. Current Trends and Patterns of Financial Inclusion in Asia and Pacific

This section review the current trends and patterns in Asia Pacific region in with a special reference to LDC, LLDC, and SIDS. In order to achieve inclusive growth and sustainable development, the governments and the central banks in the region have taken various measures to create a conducive and enabling environment for expanding financial services to marginal farmer, SME, unbaked /underserved people, women, and lower income group in rural area, by banks, non-banks, cooperatives, MFI and other